

Buy-outs, buy-ins and longevity hedging - H1 2019

Managing pension scheme risk



Welcome to our half-yearly update, summarising the activity in the buy-in, buy-out and longevity hedging markets during the first half of 2019, and the year to 30 June 2019 ('the last year').

Buy-outs and buy-ins - Deals during the first half of 2019 ("H1 2019")

The total value of buy-out and buy-in deals struck in H1 2019 was around £17.5 billion (around £34.0 billion for the year to 30 June 2019).

| Buy-out and buy-in deals | Number of deals completed | | | Value of deals completed | | |
|-------------------------------|---------------------------|-----------------|------------|--------------------------|-----------------|-----------------|
| | H2 2018 | H1 2019 | Total | H2 2018 | H1 2019 | Total |
| Aviva | 36 | 19 | 55 | £1,057m | £1,275m | £2,332m |
| Canada Life | 4 | 5 | 9 | £1,333m | £389m | £1,722m |
| Legal & General | 11 | 15 | 26 | £7,844m | £6,316m | £14,160m |
| Pension Insurance Corporation | 15 | 8 | 23 | £3,881m | £6,000m | £9,881m |
| Phoenix | 2 | 2 | 4 | £326m | £1,560m | £1,886m |
| Just* | 17 | Estimated as 15 | 32 | £596m | £512m | £1,108m |
| Rothesay Life | 4 | 4 | 8 | £755m | £715m | £1,470m |
| Scottish Widows | 6 | 2 | 8 | £660m | £770m | £1,430m |
| Total | 95 | 70 | 165 | £16,452m | £17,537m | £33,989m |

At the time of writing the total value of deals completed by Just during H1 2019 has been disclosed but the breakdown of these deals has not. As such, this update assumes that the average size of transactions completed by Just in H1 2019 was in line with H2 2018 (resulting in the estimate that 15 deals were completed in H1 2019) and that all completed transactions were buy-ins under £200m.

Longevity swaps - Deals during H1 2019

Including the £7 billion transaction entered into by HSBC, forty nine deals, covering liabilities worth over £77 billion, have been completed since 30 June 2009.

| Organisation | Date | No. of pension schemes | Provider | Approximate Value |
|---------------------------|---------|------------------------|--|-------------------|
| Babcock | Q3 2009 | 3 | Credit Suisse | £1.2 bn |
| RSA Insurance | Q3 2009 | 2 | Rothesay Life | £1.9 bn |
| Berkshire | Q4 2009 | 1 | Swiss Re | £1 bn |
| BMW | Q1 2010 | 1 | Abbey Life | £3 bn |
| British Airways | Q3 2010 | 1 | Rothesay Life | £1.3bn |
| Pall | Q1 2011 | 1 | JP Morgan | £0.1 bn |
| ITV | Q3 2011 | 1 | Credit Suisse | £1.7 bn |
| Rolls Royce* | Q4 2011 | 1 | Deutsche Bank | £3 bn |
| Pilkington | Q4 2011 | 1 | Legal & General | £1 bn |
| Akzo Nobel | Q2 2012 | 1 | Swiss Re | £1.4 bn |
| LV= | Q4 2012 | 1 | Swiss Re | £0.8 bn |
| BAE Systems | Q1 2013 | 1 | Legal & General | £3.2 bn |
| Bentley | Q2 2013 | 1 | Abbey Life | £0.4bn |
| Carillion | Q4 2013 | 5 | Deutsche Bank | £1bn |
| AstraZeneca | Q4 2013 | 1 | Deutsche Bank | £2.5bn |
| BAE Systems | Q4 2013 | 2 | Legal & General | £1.7bn |
| Aviva | Q1 2014 | 1 | Own insurer conduit- Munich Re, Scor Se and Swiss Re | £5bn |
| BT | Q2 2014 | 1 | Own insurer conduit - PICA | £16bn |
| PGL* | Q3 2014 | 1 | Own insurer conduit - Phoenix Life | £0.9bn |
| MNOPF | Q4 2014 | 1 | Own insurer conduit - Pac Life Re | £1.5bn |
| ScottishPower | Q4 2014 | 1 | Abbey Life | £2bn |
| AXA UK | Q3 2015 | 1 | Own insurer conduit - RGA | £2.8bn |
| Heineken | Q3 2015 | 1 | Aviva | £2.4bn |
| RAC (2003) Pension Scheme | Q4 2015 | 1 | Own insurer conduit - Scor Se | £0.6bn |
| Unnamed | Q4 2015 | 1 | Zurich | £0.09bn |
| Serco* | Q4 2015 | 1 | Undisclosed | £0.7bn |
| Pirelli Tyres Limited | Q3 2016 | 2 | Zurich | £0.6bn |
| Manweb Group | Q3 2016 | 1 | Abbey Life | £1bn |
| Unnamed | Q4 2016 | 1 | Zurich | £0.05bn |
| Unnamed | Q4 2016 | 1 | Legal & General | £0.9bn |
| Unnamed | Q1 2017 | 1 | Zurich | £0.3bn |
| Skanska | Q2 2017 | 1 | Zurich | £0.3bn |
| SSE | Q2 2017 | 1 | Legal & General | £0.8bn |
| Marsh & McLennan | Q3 2017 | 1 | Own insurer conduit - Canada Life Re and PICA | £3.4bn |
| British Airways* | Q3 2017 | 1 | Own insurer conduit - Canada Life Re and Partner Re | £1.6bn |
| National Grid | Q2 2018 | 1 | Zurich | £2.0bn |
| Lafarge | Q3 2018 | 2 | Own insurer conduit - Munich Re | £2.4bn |
| Unnamed | Q3 2018 | 1 | Legal & General | £0.3bn |
| HSBC | Q3 2019 | 1 | Own insurer conduit - PICA | £7.0bn |
| Total to date | | 49 | | £77.8bn |

*Since the original swap transaction date these deals have been converted to buy-ins.

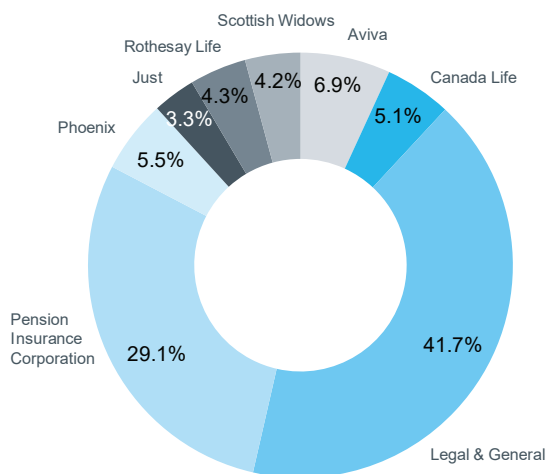
Risk transfers during the last year

Facts and figures

Buy-ins and buy-outs

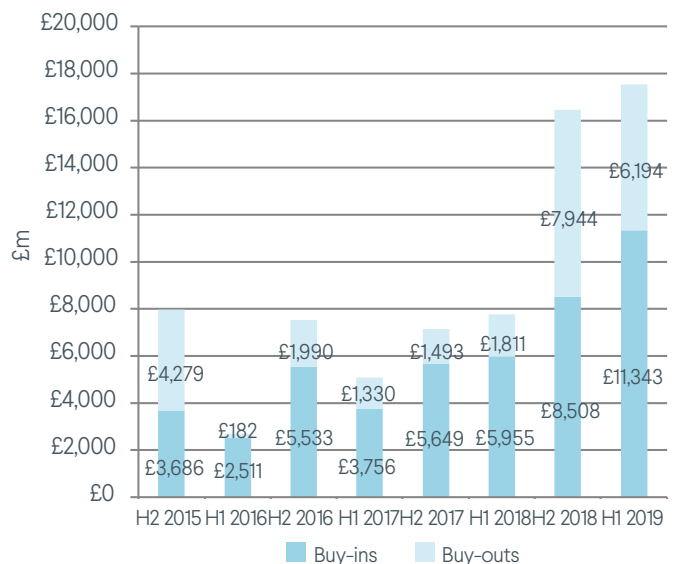
Market share (by value) during the year to 30 June 2019

The largest market share in the buy-in and buy-out market was Legal and General with c. 41.7% by value, followed by PIC with 29.1%.



Buy-ins v buy-outs

During the last year, the value of buy-ins was more than the value of buy-outs (around £14.1 billion of buy-outs versus around £19.9 billion of buy-ins).



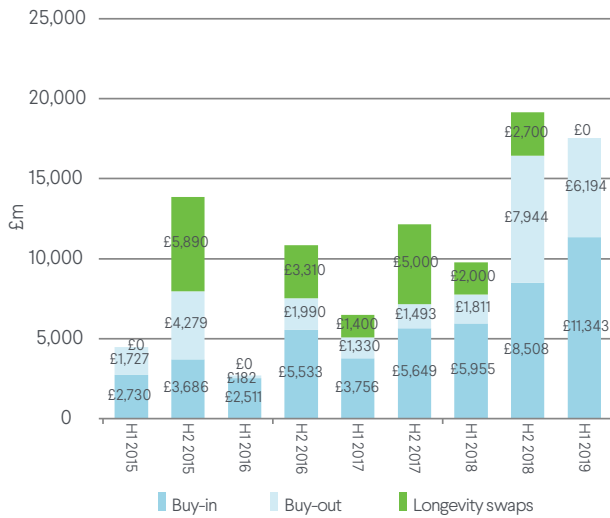
Largest buy-ins and buy-outs

The last year saw twenty nine deals in excess of £200m.

| | Pension Scheme | Provider | Value | Deal type | Date |
|----|---|-----------------|---------|-----------------|---------|
| 1 | Undisclosed | PIC | £200m | Buy-out | Q3 2018 |
| 2 | BHS2 | PIC | £770m | Buy-out | Q3 2018 |
| 3 | Airways | L&G | £4,400m | Buy-in | Q3 2018 |
| 4 | Undisclosed | L&G | £285m | Buy-in | Q3 2018 |
| 5 | AA UK | Canada Life | £351m | Buy-in | Q3 2018 |
| 6 | Hays | Canada Life | £271m | Buy-in | Q3 2018 |
| 7 | Undisclosed | Aviva | £400m | Buy-in | Q3 2018 |
| 8 | Undisclosed | Rothsay Life | £280m | Buy-in | Q3 2018 |
| 9 | Undisclosed | PIC | £250m | Buy-in | Q4 2018 |
| 10 | Rentokil | PIC | £1,515m | Buy-in | Q4 2018 |
| 11 | Undisclosed | PIC | £590m | Buy-out | Q4 2018 |
| 12 | Nortel | L&G | £2,400m | Buy-out | Q4 2018 |
| 13 | Reuters Pension Fund | Canada Life | £622m | Buy-in | Q4 2018 |
| 14 | Undisclosed | Rothsay Life | £260m | Buy-in | Q4 2018 |
| 15 | Merril Lynch | Scottish Widows | £390m | Buy-in | Q4 2018 |
| 16 | Co-operative Group | PIC | £425m | Buy-in | Q1 2019 |
| 17 | Pearson | L&G | £500m | Buy-in | Q1 2019 |
| 18 | Howden | L&G | £230m | Buy-in | Q1 2019 |
| 19 | Dresdner Kleinwort - Final Salary Section | PIC | £930m | Buy-in | Q1 2019 |
| 20 | Dresdner Kleinwort - Money Purchase Section | PIC | £230m | Buy-in | Q1 2019 |
| 21 | Rolls-Royce | L&G | £4,600m | Partial Buy-out | Q2 2019 |
| 22 | QinetiQ | Scottish Widows | £690m | Buy-in | Q2 2019 |
| 23 | M&S | PIC | £940m | Buy-in | Q2 2019 |
| 24 | M&S | Phoenix | £460m | Buy-in | Q2 2019 |
| 25 | British American Tobacco | PIC | £3,365m | Buy-in | Q2 2019 |
| 26 | Undisclosed | Rothsay Life | £440m | Buy-in | Q2 2019 |
| 27 | PGL Pension Scheme | Phoenix | £1,100m | Buy-in | Q2 2019 |
| 28 | Undisclosed | Aviva | £675m | Buy-in | Q2 2019 |
| 29 | Undisclosed | Aviva | £200m | Buy-in | Q2 2019 |

Risk transfer deals (including longevity swaps)

Total pension scheme risk transfer deals over the last year covered liabilities of around £36.7billion.

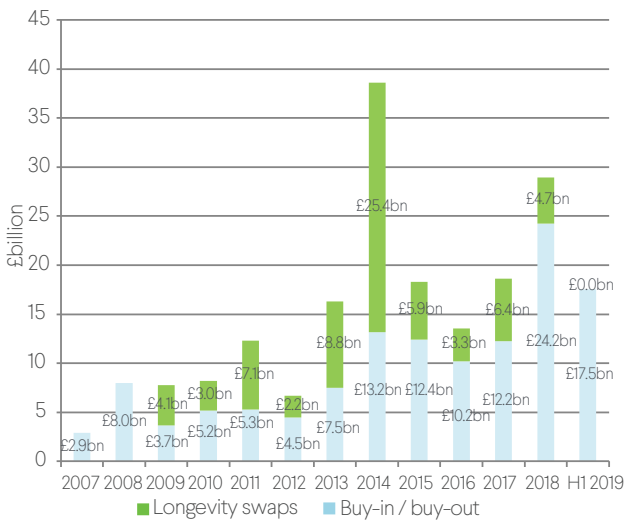


Average buy-in and buy-out deal size

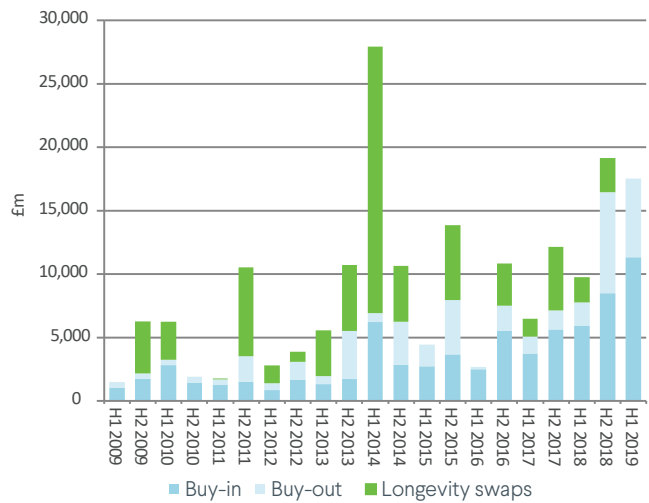
The overall average buy-in/buy-out deal size for the last year was £206m, which has increased significantly compared with the average of £97m over the year to 30 June 2018. The average deal size during the last year varied significantly between the different insurers.

| | Total value of deals | Total number of deals | Average deal value |
|-------------------------------|----------------------|-----------------------|--------------------|
| Aviva | £2,332m | 55 | £42m |
| Canada Life | £1,722m | 9 | £191m |
| Legal & General | £14,160m | 26 | £545m |
| Pension Insurance Corporation | £9,881m | 23 | £430m |
| Phoenix | £1,886m | 4 | £472m |
| Just | £1,108m | 32 | £35m |
| Rothsay Life | £1,470m | 8 | £184m |
| Scottish Widows | £1,430m | 8 | £179m |
| Totals | £33,989m | 165 | £206m |

Volume of risk transfer deals since 2007 up to H1 2019



Half-yearly risk transfers since 2009



Buy-ins and Buy-outs

Buy-ins and buy-outs covered nearly £34 billion of pension scheme liabilities during the 12 months to 30 June 2019, with £17.5 billion completed in H1 2019 with eight insurance companies. Legal and General (L&G) had the largest market share (by value) over the year, with 42%, followed by PIC and Aviva with 29% and 7% respectively.

Highlights over H1 2019 were:

- The recent trend of record breaking transactions continued as The Rolls-Royce UK Pension Fund completed a £4.6bn partial buy-out with Legal and General which was the largest ever UK bulk annuity transaction.
- British American Tobacco (BAT) UK Pension Fund completed the largest ever buy-in transaction including both pensioners and deferred members with PIC at £3.4bn.
- The Dresdner Kleinwort Pension Plan completed a £1.2bn full buy-in with PIC which was split into two separate transactions covering the £900m Final Salary Section and the £300m Money Purchase Section.
- In a period of large transactions, M&S insured £1.4bn of pensioner members with two insurers, PIC and Phoenix (£940m and £460m respectively) in a similar fashion to the transactions carried out last year.

The bulk annuity market continues to show signs of further maturity as the volume of transactions over H1 2019 hit record levels.

Recent developments

Despite H1 2019 achieving record transaction volumes in terms of liabilities insured, the number of deals was down from H2 2018 (95 down to 70). This highlights the recent trend of large transaction sizes as some of the biggest Schemes in the UK look to lock down their longevity risk.

We expect this trend of large deals to continue into H2 2019 which is significant for all pension schemes looking to complete buy-ins and buy-outs because insurance company capacity will be quickly consumed.

This means that, going forwards, pension schemes need to carefully plan how they approach the insurance companies for buy-in and buy-out quotations and demonstrate why they should be a high priority case. Insurers will undoubtedly favour those who have already done the necessary groundwork, and who can demonstrate a clear intent to transact. Hymans Robertson's strong risk transfer experience, robust broking process and deep knowledge of insurance companies means that we can provide pension schemes with precisely the strategy they need in order to best engage the insurance market.

Longevity swaps

Longevity swap deals have now covered over £77bn of pension scheme liabilities since mid-2009, with a single £7bn transaction completed recently following no transactions in H1 2019 and £4.7bn of transactions in H2 2018.

Transactions over the past year included:

- A longevity swap by HSBC covering £7bn of liabilities of the HSBC Bank (UK) Pension Scheme with HSBC using its own captive as the intermediary. This is the second largest UK pension scheme longevity swap written to date and is also the first to use a Bermuda based captive as the intermediary.
- Two longevity swaps by LaFarge covering around £2.4bn of liabilities across the two DB sections of the LaFarge UK Pension Plan with Munich Re acting as the reinsurer for both swaps. Reinsurance was accessed through a captive insurance vehicle, with two 'incorporated cells' acting as the intermediary between the Plan and Munich Re.
- A streamlined longevity swap covering £300m of liabilities of an undisclosed pension scheme with L&G acting as the insurer. This was L&G's first streamlined transaction in the market, bringing competition at the smaller end of the market previously dominated by Zurich.

There are a number of different structures that can be used to access the longevity reinsurance market, ranging from fully 'intermediated' structures to captive insurance vehicles. Longevity swaps continue to use a wide range of these structures based on what is most appropriate for the circumstances of any given scheme.

Notable examples of the various structures include the £800m longevity swap by SSE which used a UK-based pass through structure to transfer longevity risk to the end reinsurer efficiently. Hymans Robertson were lead advisors on this transaction. The Aviva Staff Pension Scheme, also advised by Hymans Robertson, was the first of its kind that allowed longevity risk to be transferred directly to the reinsurance market without making use of a traditional longevity swap intermediary.

Traditional intermediaries aren't falling out of favour though, with National Grid transacting a more 'traditional' £2bn longevity swap in 2018 which was 'fully' intermediated through the UK-based arm of Zurich Insurance.

The smaller end of the market has also benefitted from a number of streamlined longevity swap structures, enabling smaller schemes to address their longevity risk where a bulk annuity remains inappropriate. This was highlighted by the smallest 'named-life' longevity swap to date of £50m between an undisclosed pension scheme and Zurich in 2016, reinsured by Pacific Life re. L&G also transacted its first streamlined longevity swap of £300m in 2018, bringing added choice for smaller schemes.

Market Outlook

Our clients are finding that the competition in this market, along with recent slowdowns in longevity trends (albeit a different picture is emerging over 2019), is leading to some attractive pricing for longevity. When combined with the increasing appetite from pension schemes to remove longevity risk, this is a key driver for the recent level of longevity swap activity.

However, with improving funding levels, continued de-risking of assets, and buy-in pricing being very competitive, longevity risk is also increasingly being hedged through buy-in transactions. Notably, a number of longevity swaps have now been converted into bulk annuity policies as schemes have looked to continue their de-risking journey.

- In 2019, Rolls Royce converted their longevity swap from 2011 as part of a £4.6bn partial buy-out with L&G.
- In 2018, British Airways converted their longevity swap from 2017 as part of a £4.4bn buy-in, also with L&G.
- In 2017, Serco also converted their longevity swap from 2015, following on from the first such conversion by PGL in 2016.

This builds on the trend of longevity swaps also being considered as an intermediate de-risking step, providing the flexibility to move to a buy-in or buy-out at an opportune time in the market.

Reinsurers are seeing record levels of demand from insurers and pension schemes and the dynamics of the market mean that pension schemes are having to plan carefully to ensure they aren't crowded out by insurers seeking support on the very large volume of bulk annuities over 2019 and beyond. We expect 2019 to continue to be an active market for pension scheme longevity swap transactions with further deals likely to be announced over the remainder of 2019.

FTSE 100 pension scheme risk transfer deals:

| FTSE 100 company | Provider | Value | Deal type | Date |
|--------------------------|-------------------------------|-------------|-----------------|-----------|
| Smiths Group | L&G | £250m | Buy-in | Mar 2008 |
| | Paternoster | £250m | Buy-in | Sep 2008 |
| | Rothsay Life | £150m | Buy-in | Dec 2011 |
| | PIC | £170m | Buy-in | Sep 2013 |
| Lonmin | Paternoster | Undisclosed | Buy-out | May 2008 |
| Friends Provident | Aviva | £350m | Buy-in | May 2008 |
| Cable & Wireless | Prudential | £1,000m | Buy-in | Sep 2008 |
| RSA Insurance | Rothsay Life | £1,900m | Longevity swap | Jul 2009 |
| Cadbury Schweppes | PIC | £500m | Buy-in | Dec 2009 |
| Liberty International | PIC | £61m | Buy-out | Feb 2010 |
| British Airways | Rothsay Life | £1,300m | Buy-in | Jun 2010 |
| | Rothsay Life | £1,300m | Longevity swap | Dec 2011 |
| Next | Aviva | £124m | Buy-in | Aug 2010 |
| GlaxoSmithKline | Prudential | £892m | Buy-in | Dec 2010 |
| ITV | Credit Suisse | £1,700m | Longevity swap | Aug 2011 |
| Rolls-Royce | Deutsche Bank | £3,000m | Longevity swap | Nov 2011 |
| Tate & Lyle | L&G | £347m | Buy-in | Dec 2012 |
| BAE Systems | L&G | £3,200m | Longevity swap | Jan 2013 |
| | L&G | £1,700m | Longevity swap | Dec 2013 |
| InterContinental Hotels | Rothsay Life | £440m | Buy-out | Aug 2013 |
| AstraZeneca | Deutsche Bank | £2,500m | Longevity swap | Dec 2013 |
| Aviva | Swiss Re/ Munich Re/ SCOR | £5,000m | Longevity swap | Mar 14 |
| BT Group | PICA | £16,000m | Longevity swap | Jun 2014 |
| ScottishPower | Abbey Life | £2,000m | Longevity swap | Dec 2014 |
| Kingfisher | L&G | £230m | Buy-in | Dec 2015 |
| Land Securities | Just | £110m | Buy-in | Dec 2016 |
| SSE | PIC | £350m | Buy-in | Q1 2017 |
| SSE | L&G | £800m | Longevity swap | Q1 2017 |
| 3i Group | PIC | £200m | Buy-in | Mar 2017 |
| BA | Canada Life Re and Partner Re | £1.6bn | Longevity swap | Aug 2017 |
| | Aviva | £600m | Buy-in | Oct 2017 |
| Pearson | L&G | £600m | Buy-in | Oct 2017 |
| | PIC | £210m | Buy-in | Jan 2018 |
| M&S | Aviva | £925m | Buy-in | Mar 2018 |
| | Phoenix | £470m | Buy-in | Mar 2018 |
| National Grid | Zurich | £2bn | Longevity swap | May 2018 |
| Airways | L&G | £4.4bn | Buy-in | Sept 2018 |
| Rentokil | PIC | £1.5bn | Buy-in | Dec 2018 |
| Pearson | L&G | £500m | Buy-in | Feb 2019 |
| Phoenix | Phoenix | £1.1bn | Buy-in | Mar 2019 |
| 3i Group | L&G | £95m | Buy-in | Apr 2019 |
| | PIC | £940m | Buy-in | Apr 2019 |
| M&S | Phoenix | £460m | Buy-in | Apr 2019 |
| | L&G | £4.6bn | Partial Buy-out | Jun 2019 |
| British American Tobacco | PIC | £3.4bn | Buy-in | Jun 2019 |
| HSBC | Own insurer conduit - PICA | £7.0bn | Longevity swap | Jul 2019 |

FTSE 250 pension scheme risk transfer deals:

| FTSE 250 company | Provider | Value | Deal type | Date |
|---------------------------|-----------------|---------|------------------|-----------|
| Weir Group | L&G | £240m | Buy-in | Dec 2007 |
| Rank | Rothesay Life | £700m | Buy-out | Feb 2008 |
| Morgan Advanced Materials | Lucida | £160m | Buy-out | Mar 2008 |
| BBA | L&G | £270m | Buy-in | Apr 2008 |
| Dairy Crest | L&G | £150m | Buy-in | Dec 2008 |
| | L&G | £160m | Buy-in | Jun 2009 |
| Babcock | Credit Suisse | £1,200m | Longevity swap | Jul 2010 |
| Aggregate Industries | PIC | £305m | Buy-in & Buy-out | Mar 2010 |
| Undisclosed | L&G | £220m | Buy-in | Jun 2010 |
| London Stock Exchange | PIC | £203m | Buy-in | May 2011 |
| Home Retail Group | Prudential | £280m | Buy-in | May 2011 |
| Cobham | Rothesay Life | £280m | Buy-in | July 2013 |
| Jardine Lloyd Thompson | Prudential | £120m | Buy-in | Oct 2013 |
| Carillion | Deutsche Bank | £1,000m | Longevity swap | Dec 2013 |
| Jardine Lloyd Thompson | Prudential | £85m | Buy-in | Jan 2014 |
| Interserve | Aviva | £338m | Buy-in | Aug 2014 |
| Taylor Wimpey | Partnership | £206m | Buy-in | Dec 2014 |
| Inchcape plc | Aviva | £297m | Buy-out | Dec 2015 |
| A.G. Barr | Canada Life | £35m | Buy-in | Sept 2016 |
| Tullett Prebon | Rothesay Life | £270m | Buy-out | Mar 2017 |
| Hays | Canada Life | £271m | Buy-in | Aug 2018 |
| National Express | Rothesay Life | £105m | Buy-in | Oct 2018 |
| QinetiQ | Scottish Widows | £690m | Buy-in | Apr 2019 |

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